

Regency

ROUTING AND RECORD SHEET

SUBJECT: (Optional) Questions and Answers Regarding Testimony Before Post Office and Civil Service Committee

FROM: DD/Pers/EBS

EXTENSION

NO.

DATE

23 April 1984

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

RECEIVED

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Bob,

Attached are responses to the questions you raised on Retirement. One question is still being worked on and is as follows:

Ques:

What is the history on the Board of Officers mentioned on page 5821 of 1963 hearing on CIARDS?

We will provide the answer to this question as soon as possible.

*CC: C/RD
DD/EBS*

QUESTIONS AND ANSWERS REGARDING
TESTIMONY BEFORE POST OFFICE AND CIVIL SERVICE COMMITTEE

Question:

Attrition Rates.

Answer:

Agency Attrition

Total = 4%

Officers = 2%

U.S. Government

Total = 14%

State = 11%

Justice = 8%

Question:

How does one become eligible for Foreign Service Retirement System?

Answer:

By career appointment in the Foreign Service. This includes Foreign Service Officers and Foreign Service Staff. The only uncovered employees assigned to the State Department are GS and Foreign National employees.

Question:

Is there a restriction on the continuous length of service that a Foreign Service employee can perform in the United States and is this rule enforced. If the latter is enforced, what is the employee's status?

Answer:

Under current Department rules, the status of a Foreign Service employee is reviewed if they remain in the U.S. beyond eight years. This rule has not previously been enforced, but the Department claims they will be enforcing this rule.

When the rule is enforced, the employee must resign or be converted to a GS status and thus would no longer be covered under the Foreign Service Retirement System.

QUESTIONS AND ANSWERS REGARDING
TESTIMONY BEFORE POST OFFICE AND CIVIL SERVICE COMMITTEE

Question:

What are the differences in the Foreign Service Retirement System and CIARDS?

Answer:

See Attachment "A" for comparisons.

Question:

What are the differences for prior military service (Catch 62) under the Foreign Service Retirement System and CIARDS.

Answer:

Foreign Service Act was passed prior to Social Security coverage for military personnel, which became effective 1 January 1957.

Prior to passage of CIARDS law, Civil Service Retirement System was modified to provided offsets for post 1956 military coverage.

In 1964, when the CIARDS law was passed, it incorporated these same provisions for post 1956 military service.

In 1976, when the Foreign Service act was amended, pressure was created by the Congress to incorporate offset provisions for military service. This in fact happened, and State argued effectively to have the provisions made prospective from 1976.

Thus, the difference between CIARDS and Foreign Service is an offset for post-1956 versus post-1976 military service.

Question:

Are there any retirement benefits in CIARDS not provided for in Foreign Service?

Answer:

No, but Agency non-CIARDS types are provided a relocation benefit upon retirement whereas GS types at the State Department are not provided the same benefit.

QUESTIONS AND ANSWERS REGARDING
TESTIMONY BEFORE POST OFFICE AND CIVIL SERVICE COMMITTEE

Question:

Is tenure in the Foreign Service Retirement System vested or is Foreign Service Retirement subject to the approval of Secretary of State?

How does this apply to FBI, Fire Fighters, etc.?

Answer:

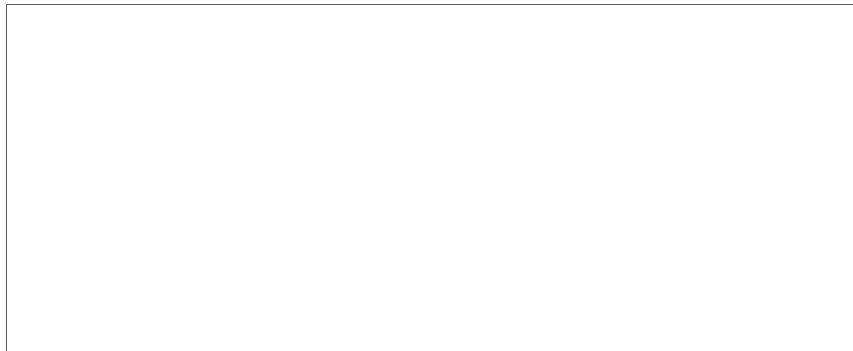
Secretary of State must approve all Foreign Service retirements just as the Director does for CIARDS. For law enforcement officers, fire fighters, air traffic controllers, Office of Personnel Management administers their retirement's just as any civil servant.

Question:

What is the percentage of Agency Civil Service retirees who have had overseas service with the Agency?

Answer:

During FY80 thru FY84 approximately 41% of CSRS employee had some form of official overseas service..



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<u>RETIREMENT SYSTEM</u>	<u>EMPLOYEE CONTRIBUTION (% OF PAY)</u>	<u>OPTIONAL RETIREMENT AGE/SERVICE REQUIREMENTS</u>	<u>MANDATORY RETIREMENT AGE</u>	<u>BENEFIT ACCRUAL FORMULA</u>	<u>INVOLUNTARY RETIREMENT</u>	<u>DEFERRED ANNUITY</u>
CIARDS	7%	50 w/20 yrs	60 if SIS-03 or below 65 if SIS-04 or above (DCI may extend service for not more than 5 yrs)	2% for all yrs of svcs. up to maximum of 70% of Hi-Three Average Salary	Annuity payable if required at discretion of the DCI if; any age w/25 years svcs; or age 50 w/20 years svcs, in either case, must have 10 yrs Agency svcs of which 5 yrs were qualifying svcs.	An employee who is separated before becoming eligible for an immediate annuity but with 5 yrs or more of service may elect to leave his contributions in the Retirement fund and receive an annuity at age 62.
Foreign Service	Same	Same	65	Same	Involuntarily retired at any age w/immediate annuity when selected out as Senior FSO or FSO class 1. Class 2 and below, if not promoted within specific period, will be retired when meeting the 50/20 criteria.	Same criteria; eligible at age 60.

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MEMORANDUM FOR: Director of Legislative Liaison

FROM: Robert W. Magee
Director of Personnel

SUBJECT: OPM Supplemental Retirement Plan

REFERENCE: Memo for Multiple Addressees fm C/LD/OLL,
dtd 29 March 85, Same Subject

1. As requested in reference, we have reviewed and analyzed the Office of Personnel Management's (OPM) proposed bill for a new retirement system for Federal employees hired after 31 December 1983. OPM's bill does not satisfy Agency needs for a supplemental retirement system. Further specific comments on the proposed bill are noted below.

2. OPM's bill focuses on a retirement age of 59-1/2, a defined contribution (non-contributory) retirement system, and an IRA up to \$5,000 per year. Retiring earlier than 59-1/2 is only permitted for law enforcement officials, firefighters, and air traffic controllers and the Agency is not cited as an exception to the age 59-1/2 rule. The current Agency Retirement Systems have successfully permitted the Agency to retire employees at ages 50, under CIA Retirement Disability System, and 55, under Civil Service Retirement System. These ages have been fully compatible with the Agency's need to retain employees through their most productive years and still provide them an annuity level which permits them to retire before their employment becomes detrimental to the Agency mission.

3. We note that OPM's proposal was not accompanied by any comparative data or analyses to estimate what annuity levels would be provided upon reaching retirement age 59-1/2. We have, therefore, relied upon our own preliminary estimates of what a defined contribution plan provides for retirees.

SUBJECT: OPM SUPPLEMENTAL Retirement Plan

4. OPM's proposal puts total emphasis on a defined contribution plan. Their proposal will not provide an adequate annuity to permit Agency employees to retire at ages 50 or 55. Consequently, employees would remain beyond their productive years thus impacting significantly on the Agency's need for a young vigorous work force. In addition, the OPM bill provides favorable tax treatment for employees by permitting them to invest up to \$5,000 in an IRA. While this is an attractive feature, it is highly doubtful that the majority of lower grade employees would participate in such a plan because they would already be paying at least 7% for Social Security coverage. We recognize that OPM has provided this feature for higher grade employees, but the ability to invest additional monies would be required for all employees to have an adequate replacement income.

5. The last feature we would like to comment on is the significantly reduced survivor benefits provided under OPM's proposal. Survivor benefits are particularly important to Agency employees because they are frequently required to serve in hazardous areas or under the risk of terrorism activity. These risks increase the potential for death or disability and thus impact on employees' willingness to serve anywhere in the world to meet intelligence requirements. The OPM plan would provide the survivors of deceased employees either a lump sum payment or an annuity based on the greater of the balances in the deceased employee's retirement fund account or one year's wages. These minimum benefits are significantly less than now provided for Agency employees.

6. In addition to the above comment, I would recommend that the Agency's response to OMB include a statement that the DCI has previously written to the Director, OMB advising him of the specific needs of this Agency for a retirement system which permits retirement of ages 50 and 55. Unless adequate annuities can be provided at these ages, the Agency cannot concur in any such retirement proposals.

Robert W. Magee

Comments on: Federal Employees Retirement System Act of 1985
(OPM Supplemental Plan)

Basic Provisions

This Plan is essentially a defined contribution plan with the basis for benefits being an accumulation of principle and interest on 11.6% of salary contributed by the Government. The employee contributes nothing. While the employee is vested after one year of service, retirement benefits cannot be drawn until age 59 1/2 (age 50 for law enforcement officers, fire fighters, and air traffic controllers). Benefits may, at the election of the employee, be in the form of a lump sum, or a fixed term or life annuity. The latter may be opted for either with or without COLA, however, the basic annuity is less when the COLA option is selected.

This Plan provides disability benefits roughly comparable to those of the current retirement systems except that they do not begin until six months after cessation of work. Survivor benefits are significantly less generous. For instance, the surviving spouse of a deceased employee would be entitled to either a lump sum payment or an annuity based on the greater of the balance in the deceased employees Retirement Fund account or one year's wages. The surviving spouse could, however, be eligible for Social Security benefits over and above this amount.

This Plan also provides for a "Federal Employees' Savings Plan" which permits employees to voluntarily put up to \$5,000 per year into the Retirement Fund. No Government contribution or matching funds are provided for. Such voluntary contributions would be treated the same as Individual Retirement Accounts (IRA's) for withdrawal and tax purposes (i.e., no withdrawal until age 59 1/2; deferral of tax on interest until withdrawal; contributions excluded from gross income for tax purposes). This provision is essentially a liberalizing of the amount one can put into an IRA and obviously of no real assistance to lower grade employees. This feature has not been approved by the Internal Revenue Service (IRS) and may meet some opposition from IRS.

This Plan also provides for early retirement of law enforcement officers, fire fighters, and air traffic controllers. These special category employees are permitted to begin drawing benefits from the Retirement Fund at age 50 after 20 years of such special service and the plan further provides that they will receive a supplemental payment the equivalent of Social Security benefits from the date of their retirement until they actually become eligible for Social Security benefits. CIA employees are not included in this special provision of the Plan nor is there any special provision for "discontinued service" cases.

This Plan deals strictly with the providing of retirement benefits and does not address the utility of a retirement system as a management tool to tailor the work force. As such it is

counter to the best interests of this Agency. It would result in employees being forced to retire at older ages.

Comments

The projections for a defined contribution plan produce impressive balances over a full career. However, it is important to keep these in the perspective of inflation. According to our consultant, general economic theory is that investment return will be about 2% higher than inflation over the long run. Therefore, expected earnings of, for instance 9%, must be discounted by at least 7% a year to reveal the real dollar value of the accumulated balances.

Projected funds of a million dollars or more with annual returns of \$100,000 appear very comfortable. However, if the retiree faces a price tag of \$100,000 for a new car and has to pay \$10 for a quart of milk, and \$4 for a daily newspaper, the income takes on new perspective.

A retirement program based strictly on a defined contribution pension plan would have devastating impact on the Agency's ability to maintain an effective work force.

The attached tables provided by Ed Hustead of Hay Associates (converted to current dollar equivalents) compare benefits under current CIARDS and CSRS with benefits received from a defined contribution plan where 14% (OPM's plan calls for 11.6%) of salary was invested over a career. In all cases, even if a supplement

equal to Social Security is provided at the time of retirement, the annuity levels are less than under existing systems. The levels are significantly less if retirement is before age 62. (Hustead is providing data on OPM's proposal, but it is not currently available due to prior commitments on his part in dealing with the current Congressional studies.)

Such a plan would not support the early retirement requirements of this Agency and employees would have to work much longer to acquire sufficient annuity levels. Conversely, similar to the Stevens' proposal, the turnover of younger employees would be significantly increased by the portability aspects of such a plan and the DCI's management flexibility severely hampered in maintaining a quality work force.

Employee entering the CIARDS in 1985
Retiring at Age 60 with 30 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$7,688	\$10,578	\$18,428	\$20,715
Pension plan	\$0	\$0	\$0	\$0
Social security	\$5,243	\$5,659	\$6,225	\$6,225
Total benefit from plan:				
At retirement	\$7,688	\$10,578	\$18,428	\$20,715
At age 62	\$12,351	\$15,440	\$23,263	\$25,378
At age 80	\$8,752	\$10,487	\$14,635	\$15,679
Benefit from current system	\$15,182	\$19,201	\$36,701	\$39,118

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CSRS in 1985
Retiring at Age 55 with 30 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$7,092	\$9,758	\$17,000	\$19,110
Pension plan	\$0	\$0	\$0	\$0
Social security at 62	\$4,894	\$5,282	\$5,810	\$5,810
Total benefit from plan:				
At retirement	\$7,092	\$9,758	\$17,000	\$19,110
At age 62	\$10,283	\$12,697	\$18,728	\$20,332
At age 80	\$7,554	\$8,943	\$12,187	\$12,978
Benefit from current system	\$14,233	\$18,001	\$34,407	\$36,673

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CSRS in 1985

Retiring at Age 65 with 40 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$28,342	\$34,299	\$67,939	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$11,523	\$15,336	\$27,665	\$30,223
Pension plan	\$0	\$0	\$0	\$0
Social security	\$7,151	\$8,057	\$8,613	\$8,613
Total benefit from plan:				
At retirement	\$18,674	\$23,393	\$36,278	\$38,836
At age 80	\$13,549	\$16,573	\$23,974	\$25,395
Benefit from current system	\$20,509	\$24,819	\$49,162	\$49,712

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CSRS in 1985
Retiring at Age 62 with 20 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$23,983	\$30,780	\$59,230	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$4,437	\$6,445	\$10,571	\$11,138
Pension plan	\$0	\$0	\$0	\$0
Social security	\$3,238	\$3,694	\$4,455	\$4,455
Total benefit from plan:				
At retirement	\$7,675	\$10,138	\$15,026	\$15,593
At age 80	\$5,428	\$6,875	\$9,673	\$9,953
Benefit from current system	\$8,172	\$10,589	\$19,989	\$23,634

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CIARDS in 1985
Retiring at Age 55 with 30 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$7,092	\$9,758	\$17,000	\$19,110
Pension plan	\$0	\$0	\$0	\$0
Social security	\$4,894	\$5,282	\$5,810	\$5,810
Total benefit from plan:				
At retirement	\$7,092	\$9,758	\$17,000	\$19,110
At age 62	\$10,283	\$12,697	\$18,728	\$20,332
At age 80	\$7,554	\$8,943	\$12,187	\$12,978
Benefit from current system	\$15,182	\$19,201	\$36,701	\$39,118

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CIARDS in 1985
Retiring at Age 50 with 25 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$25,436	\$32,539	\$62,714	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$5,112	\$7,187	\$12,236	\$13,127
Pension plan	\$0	\$0	\$0	\$0
Social security	\$3,917	\$4,328	\$4,990	\$4,990
Total benefit from plan:				
At retirement	\$5,112	\$7,187	\$12,236	\$13,127
At age 62	\$7,110	\$8,817	\$12,632	\$13,189
At age 80	\$5,493	\$6,544	\$8,762	\$9,037
Benefit from current system	\$12,069	\$15,310	\$29,225	\$32,598

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.